84-178 (1)



No. ____

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1984

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TECHNICAL DEVELOPMENT CORPORATION
*Petitioner,*

v.

BECKMAN INSTRUMENTS, INC.
*Respondent.*

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# PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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## QUESTION PRESENTED

Does the sale of elements which have uses other than in a patented combination carry with it an implied license to construct and use all patented combinations in which those elements are found?

## RULE 28.1 STATEMENT

The petitioner Technical Development Corporation has no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1

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## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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Technical Development Corporation petitions for a writ of certiorari to review the opinion and judgment of the United States Court of Appeals for the Seventh Circuit, dated March 22, 1984, in this case.

### OPINIONS BELOW

The opinion of the Court of Appeals (App. A, *infra*, 1a-5a), adopting and incorporating the memorandum and order of the United States District Court for the Northern District of Illinois, Eastern Division (App. A, *infra* 6a-19a) is reported at 730 F.2d 1076 (7th Cir. 1984). The order of the Court of Appeals denying rehearing (App. B, *infra*, 20a-21a) is not reported.

## JURISDICTION

The opinion and judgment of the Court of Appeals was entered on March 22, 1984. The order denying the petition for rehearing was entered on May 2, 1984. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## STATUTE INVOLVED

35 U.S.C. § 271 provides, in part:

> "(a) Except as otherwise provided in this title, whoever *without authority* makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent." (emphasis added).

## STATEMENT

This prolonged and complex litigation originated in 1961 when Dr. Franklin Offner sold his company, Offner Electronics, Inc., to Beckman Instruments, Inc. (Beckman). As part of the transaction, Beckman and Technical Development Corporation (TDC), a company formed by Offner to hold and license his patent rights, entered into a patent sublicense agreement (App. C, *infra*, 22a-35a). That agreement grants Beckman sublicenses under the Offner patent rights and requires Beckman to pay royalties to TDC for the life of the Offner patent rights, or until a cap of $5,000,000 is reached.

Beckman first tried in 1966 to avoid its royalty obligations under the agreement. Beckman filed a declaratory judgment action seeking, on various patent misuse theories, the return of royalties as well as freedom from paying future royalties. Beckman was unsuccessful, so it continued to operate under the license agreement and pay royalties until July 1, 1976. *See, Beckman Instruments, Inc.* v. *Technical Development Corporation* 433 F.2d 55 (7th Cir. 1970).

On July 1, 1976, before the licensed patent rights had expired and with royalty payments over $3,000,000 short of the cap, Beckman purported to terminate the sublicense agreement and brought the present declaratory judgment action, based upon 28 U.S.C. § 1332 and 1337, in the United States District Court for the Northern District of Illinois, Eastern Division. Beckman's complaint sought a declaration that it should be free of its royalty obligation because of its purported termination of the sublicense agreement, TDC's alleged violations of the antitrust laws of the United States, and TDC's alleged patent misuses (App. D, *infra*, 36a-44a).

The contract termination issue was tried separately and evolved into both a state law matter and a federal law matter. Applying state law, the Seventh Circuit interpreted the contract so as to allow Beckman to terminate if it no longer used a sublicensed patent. The Court noted that "A patent is used when use of a device, if unauthorized, constitutes infringement of the patent." (App. A, *infra*, 5a). Applying federal patent infringement law, the Court then held that Beckman's post-termination sales of certain devices did not constitute infringement because the uses of TDC's patents resulting from such sales were impliedly authorized by virtue of Beckman's pre-termination licensed sales. The Seventh Circuit's holding on that patent infringement issue, a question governed by federal law, is the subject of this petition.

The facts concerning the patent infringement issue are essentially undisputed (App. A, *infra*, 16a-18a). Before July 1, 1976, Beckman sold dynographs containing certain Model 481B and 461B preamplifiers. A dynograph is a multi-channel, direct writing oscillograph which plots a record of diverse conditions such as heartbeats, brain waves, temperatures, vibration blood pressures, and the

like. Each recording channel of the dynograph receives a signal related to the condition being monitored, amplifies that signal, and records a representation of the signal on a chart. The preamplifier and input coupler determine the physical configuration of the amplifier in each recording channel and thus, the type of recording application for which the dynograph is suited (App. A, *infra*, 16a).

Before purporting to terminate the sublicense agreement, Beckman sold 481B and 461B preamplifiers with and without input couplers, including the type 9872 input coupler. The preamplifiers and input couplers do not alone come within any claims of the sublicensed Offner patents, and the preamplifiers can be used without infringing the Offner patents. However the combination of a preamplifier and a 9872 input coupler is within the patent coverage. Beckman paid royalties on preamplifiers and input couplers whether or not they were sold in combination (App. A, *infra*, 16a and 17a). The District Court noted that:

> "Prior to July 1, 1976, Beckman sold 481B and 461B preamplifiers separately and paid royalties on each, not because they were each patented but because they were within the reach of the royalty provisions. Clearly, also, in the absence of the sublicenses, it would have been liable for contributory infringement if it had sold, as separate units, a 9872 coupler and either a 461B or 481B preamplifier to the same person in order that that person could use the patented combination." (App. A, *infra*, 17a).

After purporting to terminate, Beckman stopped selling the 481B and 461B preamplifiers, but it continued to sell 9872 input couplers. Those couplers were sold to prior purchasers of 481B and 461B preamplifers who used them with the preamplifiers within the coverage of an Offner patent (App. A, *infra*, 16a). The 9872 input couplers were

not sold to repair or replace worn out or broken couplers. Beckman "promoted the sale of 9872 input couplers to owners of 461B and 481B preamplifiers without regard to whether or not they had ever purchased such a coupler before." (App. A, *infra*, 18a).

Despite the fact that the 9872 input couplers were purchased to complete the patented combination and not to repair an existing patented device, the Seventh Circuit held that Beckman could not be an infringer because its customers had implied authority from the patent owner to purchase and use the 9872 coupler in a patented way. The Seventh Circuit implied that authority from Beckman's sales of the unpatented preamplifiers while it was licensed. In so ruling, the Seventh Circuit totally incorporated the reasoning of the District Court with respect to the legal issue of implied license, including that Court's refusal to follow this Court's decision in *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325 (1909). In the words of the District Court, adopted by the Seventh Circuit:

> "Superficially, those facts bear some resemblance to those in *Leeds & Catlin* v. *Victor Talking Machine Co.*, 213 U.S. 325 (1909), but the days when the purchase of a record for a talking machine was a major event are far removed from a market in which complicated equipment is promoted for multiple uses through interchangeable accessories. Unless he is told otherwise at the time of sale, the purchaser quite reasonably expects that he can acquire those accessories necessary for full use of the equipment without running afoul of the patent laws." (App. A, *infra*, 18a).

As a result of that rejection of *Leeds & Catlin*, the Seventh Circuit adopted the conclusion that "even if such couplers in combination with the preamplifier would infringe a patent, the purchasers were free to acquire those

accessories anywhere." (App. A, *infra*, 5a and 19a). Beckman's termination of the sublicense agreement therefore was deemed proper, and it was free of its royalty obligation to TDC after July 1, 1976. TDC could lose more than $3,000,000 in royalties from Beckman if the termination is upheld as proper.

## REASON FOR GRANTING THE WRIT

### 1. The Decision Below With Respect To The Scope Of The Implied License Doctrine Directly Conflicts With This Court's Decision In *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325 (1909).

The decision of the Seventh Circuit, in adopting verbatim the District Court's rejection of the limited "repair" nature of the implied license doctrine, is in direct conflict with this Court's decision in *Leeds & Catlin, supra.* In *Leeds & Catlin* this Court held that "The right of substitution or 'resupply' of an element depends upon the . . . test [of repair]. The license granted to a purchaser of a patented combination is to preserve its fitness for use so far as it may be affected by wear or breakage. Beyond this there is no license." 213 U.S., at 336. But in the instant case, the Seventh Circuit held that the implied license doctrine relieves a purchaser from infringement liability even though the subsequent acts of the purchaser involve completion of the invention and do not involve repair. The conflict is complete and irreconcilable.

The Seventh Circuit's decision rests on the adoption of the District Court's view that:

> "Superficially, [these] facts bear some resemblance to those in *Leeds & Catlin* v. *Victor Talking Machine Co,.* 213 U.S. 325 (1909), but the days when the purchase of a record for a talking machine was a major event are far removed from a market in which complicated equipment is promoted for multiple uses

through interchangeable accessories." (App. A, *infra*, 18a).

Thus, the Seventh Circuit has rejected the governing precedent of *Leeds & Catlin* without drawing any meaningful distinction, merely because it sees that case as outmoded.

However, this Court has had recent opportunities to review the implied license doctrine and has not dismissed *Leeds & Catlin* as a dated "talking machine" precendent. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336 (1961) ("Aro I") involved the issue of direct patent infringement in the context of the sale of unpatented elements to prior purchasers of a patented combination. This Court reaffirmed the implied right to repair, and *Leeds & Catlin* was mentioned in several of the separate opinions without once questioning its viability. 365 U.S., at 345-46, 355-56, 362, 369, and 375. The more recent decision in *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176 (1980) also refers to *Leeds & Catlin* as viable precedent. *Id.*, at 198-99, 215.

The Seventh Circuit's reasoning suggests that its rejection of the simple and direct formula of *Leeds & Catlin* is mandated by the "reasonable expectations induced by the patentee" (App. A, *infra*, 5a, 18a-19a). Yet, this Court in *Leeds & Catlin* certainly recognized that the purchasers of record players reasonably expected to be able to purchase additional records for use with their previously purchased equipment. And, in spite of such expectations, this Court refused to extend to the purchaser of the patented combination an implied license to purchase records from any source, because the records were not purchased to repair or replace broken or worn out records. Similarly, in *Aro I* there was no consideration of the expectations of the purchaser, other than the ex-

pectation that unpatented parts could be purchased to repair the patented combination and restore it to its original use.[1]

There simply is no legal precedent for the Seventh Circuit's decision; nor is there any way to harmonize that decision with the governing precedent of this Court.

**2. The Decision Below Raises Important And Unique Problems Concerning The Extent To Which The Implied License Doctrine Impacts Patent Infringement Law.**

The decision of the Seventh Circuit involves an issue of importance and concern to all patent owners in the United States. If allowed to stand unreviewed, the decision will create confusion and uncertainty among all present and future patent owners.

In particular, the Seventh Circuit's precedent, if left standing, extends the doctrine of implied license to encompass expectations of a purchaser other than the right to repair and leaves the patent owner in danger of losing valuable patent rights each time he or his licensee sells a product without disclaiming any and all possible license "expectations." In *Westinghouse Electric & Mfg. Co.*, v. *Independent Wireless Telegraph Co.*, 300 F. 748 (S.D.N.Y. 1924), Judge Learned Hand illustrated the far

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[1] In *Dawson Chemical Co.* v. *Rohm & Hass Co.*, 448 U.S. 176, 217, 100 S.Ct. 2601, 2624 (1980), this Court further noted that the decision in *Aro I*

> "eschewed the suggestion that the legal distinction between 'reconstruction' and 'repair' should be affected by whether the element of the combination that has been replaced is an 'essential' or 'distinguishing' part of the invention. 365 U.S., at 344, 81 S.Ct., at 603. The Court reasoned that such a standard would 'ascrib[e] to one element of the patented combination the status of patented invention itself.' . . . ."

reaching consequences of the view represented by the Seventh Circuit's decision:

> "The argument comes down to this: That in selling one element of a patented combination the seller gives a license to the buyer to furnish the other elements himself and so complete the combination. Such a doctrine is I venture to believe, quite unheard of in the law, and would, if consistently applied, lead to the most extravagant results. No one would, of course, suggest that the sale of a pawl and ratchet gave an implied license to use all patented combinations in which those mechanical elements were to be found. I agree that the instance is extreme, but it tests the principle.
>
> If the article [the preamplifer sold under license] has other uses than in the patented combination, there is no basis to imply a license. *Gen. Elect. C.* v. *Continental Lamp Works* (C.C.A.) 280 Fed. 846; *Edison, etc., Co.* v. *Peninsular, etc., Co., 101 Fed 831, 43 C.C.A. 479.* It is only when the article sold *must be used in the patented combination, if it be used at all*, that a license is implied." (emphasis added) 300 F. at 750.

In accord are the decisions in *Hunt* v. *Armour* 185 F.2d 722, 729 (7th Cir. 1950), *Stukenborg* v. *United States*, 372 F.2d 498, 504 (Ct.Cl. 1967).[2]

The refusal of the Seventh Circuit, to accept governing precedent, and its determination that *Leeds & Catlin* is outmoded without any judicial or logical precedent, denies the present petitioner its rightful rewards under our patent system and leaves future patent owners in an uncertain position. If an element which has uses in other

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[2] To the extent there is any protection from infringement by the sale of an unpatented, non-repair part of a patented combination, it is set forth in the law on contributory infringement and inducement, 35 U.S.C § 271(b) and 35 U.S.C. § 271(c), and not in prior cases on authority or implied license, 35 U.S.C. § 271(a).

than a patented combination is promoted and sold by the patent owner or a licensee as being useful in a variety of ways, including in a patented combination, can the purchaser buy other elements from unauthorized sources to complete the patented combination? The Seventh Circuit has answered "yes" to that question, but under *Leads & Catlin* the answer clearly was "no." That answer should be firmly reinstated.

## CONCLUSION

The far reaching consequences of the lower Court's decision to reject this Court's governing precedent mandate the grant of this petition, and the reversal of the implied license decision. The issue is purely legal, and there are no disputed facts, subject to review by a "clearly erroneous" standard.

Respectfully submitted,

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July 31, 1984

# APPENDIX

## APPENDIX A

In the

# United States Court of Appeals

## For the Seventh Circuit

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No. 83-1136

BECKMAN INSTRUMENTS, INC., a California corporation,

*Plaintiff-Appellee,*

*v.*

TECHNICAL DEVELOPMENT CORPORATION,

*Defendant-Appellant.*

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Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 76 C 2488—**James B. Moran,** *Judge.*

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ARGUED JANUARY 16, 1984—DECIDED MARCH 22, 1984

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Before BAUER, COFFEY, and FLAUM, *Circuit Judges.*

BAUER, *Circuit Judge.* Plaintiff Beckman Instruments, Incorporated sued defendants Technical Development Corporation (TDC) and Franklin F. Offner in July 1976. The dispute between Beckman and TDC arose out of an agreement in which TDC, as Offner's exclusive licensee, sublicensed Beckman with respect to various Offner patents and inventions. Offner was dismissed from the suit.

Beckman and TDC executed the sublicense agreement in conjunction with the purchase by Beckman of Offner Electronics, Incorporated, a firm almost wholly owned by Offner. Fairly extensive negotiations and redrafting of

the agreement preceded its execution in 1961. The agreement granted Beckman the right to make and sell products covered by licensed patent rights, which included patents and patent applications held by Offner. The production rights covered all classes of a particular device even though all models may not have been covered by licensed patent rights. Beckman was obligated to pay royalties on the use of the sublicenses.

To make a long, tumultuous story short, Beckman announced termination of the agreement just before it filed this action. Beckman claimed that it no longer made use of any sublicense under the agreement and did not intend to use any in the future. TDC, on the other hand, argued that Beckman's royalty obligations still existed despite Beckman's assertions. TDC further argued that Beckman still was producing and selling devices covered by licensed patent rights.

The sublicense agreement has commanded our attention in the past. In *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971) (*Beckman I*), this court considered several issues surrounding Beckman's refusal to pay royalties on an Offner patent and allegations that TDC misused the licensed patents. There this court ruled in part that TDC had not misused its patents. The present action first was decided by the district court on August 16, 1977. Judge Marshall ruled that the language of the sublicense agreement granted Beckman the right to terminate if it stopped producing devices covered by Offner patents. This court reversed and remanded by an order dated September 12, 1978, ruling only that the language of the agreement was ambiguous and that TDC thus could offer extrinsic evidence in support of its arguments. The district court ruled again on December 20, 1982. In that opinion, Judge Moran held after trial that Beckman indeed had properly terminated the sublicense agreement. TDC appeals that judgment. We affirm.

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In this appeal TDC argues principally that Judge Moran's interpretation of the sublicensing agreement is clearly erroneous. We have little difficulty rejecting this contention. Judge Moran ruled after a thorough analysis of all the available evidence that the credible evidence supported Beckman's position. His analysis includes a review of *Beckman I*, Judge Marshall's order, and extrinsic evidence offered by both parties. Our own analysis convinces us not only that Judge Moran has committed no clear error in his analysis, but also that we would reach the same conclusions. For this reason, we adopt Judge Moran's exhaustive analysis as the opinion of this court.

A second issue raised on appeal is whether Beckman now is precluded from advocating an interpretation of the sublicense agreement termination provisions different from its positions in pleadings and briefs filed in *Beckman I*. Judge Marshall rejected this argument in his opinion of August 16, 1977, and considered Beckman's contrary positions only as other evidence weighing on the termination issue. This court agreed with Judge Marshall's analysis in its September 12, 1978, order, ruling that Beckman was not estopped from maintaining its current position. The order stated that Beckman's earlier positions constituted additional evidence to be weighed with the other extrinsic evidence. On remand, Judge Moran accorded the earlier inconsistent positions "little weight."

TDC still insists that Beckman is barred from shifting its position under the "doctrine of preclusion by deliberate choice." Appellant's br. at 37. Beckman argues contrarily that its position now is not inconsistent with its positions in *Beckman I* and further that any inconsistency does not bar it from advancing its current position. We are compelled to stand by our earlier ruling in this case that Beckman is not estopped from making its argument. First, a substantial question exists as to whether Beckman actually advocated contrary positions in *Beckman I*. In fact, Beckman merely may have been restating positions enunciated by TDC. In any event, the issue involving the seem-

ingly inconsistent positions was not adjudicated by the *Beckman I* court for want of a true controversy. *Beckman I*, 433 F.2d at 61-62. Under the circumstances in this case, TDC cannot claim either that it was disadvantaged or that Beckman gained an advantage by Beckman's positions in *Beckman I*, which were never considered directly by the district court or this court. There is no established inconsistent position; Beckman has not benefited.

The final issue meriting our separate consideration is whether Beckman in fact made use of a sublicense under the agreement after its July 1, 1976, representation that it no longer used any sublicense.* If Beckman did use a sublicense, its otherwise proper termination was ineffective.

Among other devices, Beckman sold preamplifiers and input couplers for use with those preamplifiers. The preamplifiers alone did not fall within any of the Offner patents. The preamplifiers in combination with the input couplers were within patent coverage, however, and Beckman paid royalties on all of the devices sold, regardless of whether they were sold in combination. Beckman stopped selling preamplifiers before July 1, 1976, but sold the input couplers at issue here in 1977 to Northwestern University, which had purchased a device with preamplifiers in 1965.

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* TDC raises another issue that does not merit attention in the text. TDC claims that Judge Moran improperly denied it the opportunity to present additional evidence with regard to its contention that Beckman acted under the sublicense agreement after July 1, 1976, by selling devices covered by licensed patent rights. Judge Moran blocked introduction of that evidence on the ground that it constituted a separate allegation of infringement. The judge's decision not to significantly expand the issues so late in the course of the litigation clearly was correct. The additional evidence TDC offered actually amounted to an entirely new contention for trial. Judge Moran properly exercised his discretion to bar the evidence.

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Judge Moran analyzed TDC's claim that the sublicense agreement covered Beckman's sale to Northwestern University as follows. The sublicense agreement required Beckman to pay royalties to TDC when a sublicensed patent was used. A patent is used when use of a device, if unauthorized, constitutes infringement of the patent. An Offner patent was used if the University's use of its newly purchased input coupler infringed a sublicensed patent. If the University's use of its input coupler infringed a sublicensed patent, then Beckman would have acted under the sublicense agreement in selling the input coupler, because the agreement covered all sales implicating an Offner patent.

Judge Moran ruled that Northwestern University reasonably expected to be able to purchase an accessory such as the input coupler for use with its previously purchased equipment, and thus the University could purchase the input coupler from any source without infringing a patent. Because the University did not directly infringe a patent, Beckman could not contributorily infringe a patent. *See, e.g., National-Standard Co. v. UOP, Inc.*, 616 F.2d 339 (7th Cir. 1980). Accordingly, Beckman did not act under the sublicense agreement.

In general, Judge Moran concluded that Northwestern University acted under an "implied license" to purchase the input couplers as additions to its equipment because that equipment had been represented as "all-purpose" and adaptable to many applications when used with appropriate input couplers, including the type the University eventually purchased. We find no fault in this analysis. Beckman did not act under the sublicense agreement by selling an input coupler to the University which the University could have purchased anywhere without infringing a patent. Beckman's termination of the sublicensing agreement was proper.

We affirm the district court's judgment and adopt its opinion, which is reprinted below.

AFFIRMED.

No. 83-1136

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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| | | |
|---|---|---|
| BECKMAN INSTRUMENTS, INC., a California corporation, Plaintiff, | ) | |
| vs. | ) | No. 76 C 2488 |
| TECHNICAL DEVELOPMENT CORPORATION, an Illinois corporation, Defendant. | ) | |

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## MEMORANDUM AND ORDER

In this action Beckman Instruments, Inc. (Beckman) seeks a declaration that is has lawfully terminated a 1961 patent sublicense agreement with Technical Development Corporation (TDC). TDC has counterclaimed for a declaration that the agreement remains in force either because Beckman's royalty obligations are broader than it contends or because Beckman is still producing apparatus covered by an Offner patent and is, therefore, obligated to pay royalties even under Beckman's narrower interpretation of the agreement.

The parties are no strangers to the courts, this agreement having been the subject of litigation, including appeal to the Court of Appeals for the Seventh Circuit, during the period 1966-1971. Thereafter Beckman "evidently redesigned all of its equipment so as to avoid utilizing any of the sublicensed patents." *Beckman Instruments, Inc. v. Technical Development Corporation*, No. 76 C 2488, Memorandum Opinion of Judge Marshall, August 16, 1977. In any event, Beckman, on July 1, 1976, purported to terminate the sublicense agreement and this lawsuit soon followed.

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Judge Marshall thereafter, by his Memorandum Opinion, granted summary judgment for Beckman, in the course of which he described in some detail the prior relationship of the parties and their prior litigation. Judge Marshall concluded, on the basis of the language of the sublicense agreement, that Beckman was entitled to terminate the agreement if it ceased to produce apparatus which was covered in any respect by Offner patents. The Court of Appeals, in an unpublished Order on September 12, 1978, reversed, concluding that the sublicense agreement was ambiguous. It there referred to a contrary position taken by Beckman in the earlier litigation. It was troubled by the interrelationship of paragraph 3(g) of the agreement, which defined four named types of equipment as apparatus subject to royalty, without requirement that they be covered by licensed patent rights, and paragraph 5, which provides for payment of royalties on sales of apparatus subject to royalty "under the sublicenses." Also germane was paragraph 12(b), which permits termination of the sublicense if Beckman ceases to make use of any sublicense with respect to any patent, claim, or field of use. Accordingly, it remanded the matter for consideration of any extrinsic evidence bearing upon the interpretation of the agreement.

The case was eventually transferred to this court, which held the evidentiary hearing mandated by the Court of Appeals. Extensive (233 pages) post-trial briefs were thereafter filed, together with the voluminous trial exhibits, arguing both the evidentiary facts and the language of numerous provisions of the agreement. This court's task is to interpret an agreement, in the context of events during May-August, 1961, in accordance with the intent of the parties.

A consideration of how the agreement came to be in the form it was executed is complicated by the passage of time. Certain of the participants in the negotiations have since died. Some, apparently, disclaimed any specific recollection of events so long ago and were not called by either party. Those who testified were recalling events

occurring more than a score of years ago. The paper record, as supplemented by the testimony, does, however, provide a basis for drawing factual conclusions.

In 1961 TDC was the exclusive licensee of various patents on inventions of Dr. Franklin Offner for sensing devices useful in various applications. While, for tax reasons, Dr. Offner had only 29% of the stock, it was clear that TDC was an offshoot of his inventive capabilities and was controlled by him. When Beckman first expressed an interest in May 1961 in acquiring Offner Electronics, almost wholly owned by Offner, Offner already had a pending offer from another company, but not a company in a related field. Dr. Offner was interested in discussing acquisition by Beckman because Beckman's prior experience in the field would permit it to take over from Offner the active operation of the business.

The deal was first specifically discussed between W. W. Wright for Beckman and Dr. Offner on May 8 and 9, 1961. Offner's recollection is that the contemplated transaction always involved stock and royalties which would aggregate $13,000,000, comparable to the pending offer. W. W. Wright's memorandum to Dr. A. O. Beckman (W. W. Wright is deceased) refers to a tentative agreement for $8,000,000 in stock and royalties on "product line sold under the patents," with a $5,000,000 cap. He also, in explaining the "tentative agreement," stated that "Payments would cease on any products line prior to the $5,000,000 when all the patents in use on that patent line expired." Wright expressed similar views to Offner by letter on May 11, 1961, although the reference there was to "products related to your existing patents." While acknowledging that further details would be needed in any final agreement, he termed his letter as stating "the essence of our agreement." The parties obviously understood that the patents were held by TDC and, in any acquisition of Offner Electronics, would be sublicensed by TDC to Beckman. Plaintiff at that time alerted R. J. Steinmeyer, its in-house patent counsel, of the projected transaction, and Steinmeyer initiated a rush assignment search upon Offner Electronics and TDC.

Immediately thereafter, both Wright and Dr. Offner involved others in negotiating and drafting final terms. Offner outlined his views of a proposed merger. That outline provided for $7,000,000 in stock, royalties to Offner Electronics' shareholders on the gross sales of a new Offner Electronics subsidiary of Beckman, regardless of product, as well as royalties on sales by other Beckman entities of direct writing oscillographs and other products made under Offner patents, with a $5,000,000 cap, and $1,000,000 in cash to TDC for royalty-free licenses. Offner sent a copy of the outline to his consultant Morris Glasser, a C.P.A. with a law license, and asked him to meet in California with Beckman representatives to assist in working out an agreement.

That meeting, with a somewhat shifting participation, took place May 16-18, 1961. By the end of it the parties each believed that the negotiations had been largely concluded. Glasser, apparently the only person to take extensive notes, drafted in handwriting his own proposed TDC license agreement, one of the several documents necessary to accomplish the Beckman-Offner Electronics merger on May 18, 1961, in which the gross sales base tracked the provisions of the Offner outline. His recollection is that he then rewrote the license proposal, which Wright initialed with the "gross sales" definition crossed out and replaced by a royalty proposal signed by Wright and Offner covering all direct writing oscillographs, all amplifiers (if sold outside the company), and all other Offner products if covered by patents and patent applications.

In the meantime, Robert J. Steinmeyer, Beckman's patent counsel had been drafting in Chicago his own outline of a license. That outline, sent to Beckman's general counsel and to Wright as well as others on May 18, 1961, confined the royalty base to products covered by patents and introduced the concept of early surrender or termination, prior to payment of $5,000,000 or the expiration of the last patent. The following day Steinmeyer circularized his view that the royalty obligation should not extend to unallowed claims. Shortly thereafter Steinmeyer received a

copy of Glasser's draft. Following closely thereafter was another memorandum from general counsel to Steinmeyer further elaborating upon the gross sales concept in the royalty redefinition of the Glasser draft.

On May 27, 1961, Steinmeyer circularized his draft license agreement to Beckman personnel, with specific attention being drawn to his view that Glasser's May 18 outline specified that royalties might be payable on products not covered by the Offner patents. He suggested that the royalty base needed more attention. Steinmeyer's May 27 draft established the basic form in which the license was ultimately executed. Its definition of apparatus subject to royalty did not tie the primary covered devices to patents but it did tie them to Offner Electronics' then current production and introduced, in paragraph 5, reporting on "apparatus subject to royalty sold under the sublicense." It included, as paragraph 12(b), a right in Beckman to surrender and terminate all rights under the licensed patent rights upon notice and thereby be relieved of paying further royalties. A revised draft of July 11, 1961, again incorporated the early termination provision. Steinmeyer's cover letter expressly recognized that the draft defined apparatus subject to royalty to include oscillographs and amplifiers outside the scope of patent coverage.

This draft prompted intra-Beckman discussion, including the royalty base definition, and a revised draft was forwarded to TDC on July 21, 1961. Glasser noted objections to the early termination provision, and Offner crossed it out on his copy but did not refer to that objection in his detailed response to Beckman on July 24, 1961. He did, however, prepare a revised draft which deleted paragraph 12(b).

A Steinmeyer memorandum on July 28, 1961, indicates that Dr. Offner had suggested a revised paragraph 12(b), providing for early termination of any sublicense with respect to any patent, claim, or field of use, with termination only to that extent. The suggested language was carried over into the final agreement of August 2, 1961. That agreement, for reasons not explained at trial, also ex-

panded the royalty base to include electroencephalographs and electric shock therapy apparatus not within patent claims.

The agreement, as executed, dropped Steinmeyer's May 27 draft language tying the apparatus subject to royalty to Offner Electronics' current production for the primary devices covered by the sublicense, while retaining the requirement that other apparatus be covered by an allowed or pending claim. This was the paragraph, 3(g), which the Court of Appeals considered, with paragraph 5, to cause an ambiguity in the contract. Paragraph 5 requires reports and payments on apparatus subject to royalty "under the sublicenses." Finally, paragraph 12(b) reads as follows:

> (b) If Beckman does not make use of any sublicense granted hereunder, with respect to any patent, claim or field of use, and if Beckman further declares in writing to TDC that it has no wish in the future to use such license or claim, or to engage in such field, then the sublicense granted hereunder shall to that extent only be terminated.

The licensed patent rights are, in paragraph 3(e), defined to include, *inter alia*, various patents and patent applications listed in an exhibit to the sublicense.

In the spring and summer of 1961 the context of the negotiations appears reasonably clear. Dr. Offner wished to sell Offner Electronics and to transfer the related TDC patent sublicenses. He had an attractive offer from American Brake Shoe, but he was disinclined to be as involved in future operations as that sale portended. Beckman was seeking acquisitions in related fields. The parties were a willing seller and a willing buyer, so long as the transaction could be structured to comply with tax accounting objectives and the price was satisfactory to both. A stock-plus-royalty structure met those strictures and Dr. Offner was agreeable to such a transaction so long as the expectable royalties were $5,000,000.

The Glasser notes of the May 16-18, 1961, meeting in Fullerton, California reflect the complexity of the trans-

action. Only a portion of the time was devoted to the TDC sublicensing of patent rights. The participants were well-versed in the tax and accounting considerations which dictated the stock-plus-royalty structure, and familiar with the relevant areas of interest in accomplishing such a transaction, but, with the exception of Dr. Offner, none was intimately familiar with patents and patent licenses. Wright had, in his May 11 letter to Dr. Offner and his memorandum to Dr. Beckman, indicated his understanding that royalties related to patent use, but in the memorandum his "sold under the patents" was qualified by a reference to payments on a product line until all patents in use on that product line expired. That qualification, if it had been embodied in an agreement, would have resulted in obligations less than TDC contends and more than Beckman now recognizes. Glasser, in his notes and in his handwritten and somewhat sketchy draft sublicense, makes no reference to patent coverage or product related to patents, and Wright, in furnishing it to Steinmeyer as the basis for a draft sublicense, did not indicate any discomfort with the omission of such a reference.

The various negotiators did not include Steinmeyer directly. He was, however, the one experienced patent counsel, and he soon became, for Beckman, the voice of caution in the drafting of the sublicense agreement and, for both parties, its principal draftsman.

Dr. Offner and Glasser initially sought broad royalty coverage of all production. Steinmeyer, from his vantage in the corporation, would have preferred a royalty arrangement directly related to patent coverage of specific devices. That was, however, not the arrangement Wright was prepared to accept and had accepted at the May 16-18 meeting. Rather, Wright was agreeable to a broader royalty clause, a clause which granted royalties to TDC, with certain exceptions, on all direct-writing oscillographs and amplifiers (and, later, electroencephalographs and electric shock therapy apparatus). That grant, as Steinmeyer recognized, imposed upon Beckman royalty liability for devices not covered by any of the licensed patent rights.

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He was, however, satisfied that those rights then covered much or all of Offner Electronics' current production. The license, as drafted, imposed royalty obligations for all production of a class of device even though the licensed patent rights covered only some of the models.

What, then, if at some future time none of the models of that class of device was covered by the licensed patent rights even though the last-to-expire patent included in the licensed patent rights still had time to run? Steinmeyer, in drafting his proposed paragraph 12(b), clearly intended to give Beckman a right to terminate in those circumstances. He, like Dr. Beckman, did not wish to have Beckman paying something for nothing. It is also reasonable to infer that Steinmeyer wished to avoid the then valid concept of license estoppel.

TDC contends the deal was $5,000,000, payable as royalties, and that Dr. Offner would not have approved the transaction if it were for less than $13,000,000. That contends too much, as an agreement to pay $5,000,000 regardless of sales would have destroyed the tax objectives pursued by the parties, and would have been a fraud on the Internal Revenue Service and investors. The question was never whether there would be any risk of TDC not receiving $5,000,000; the question was the acceptable degree of risk, and the negotiations in that respect focused on royalty coverage.

Clearly, Dr. Offner expected that royalties would reach $5,000,000. Clearly, in his own mind, he believed he was negotiating a $13,000,000 package. Just as clearly, however, the parties were, for tax and accounting reasons, structuring a royalty arrangement which was not a subterfuge but which did provide for a broad royalty base. The credible extrinsic evidence indicates, however, that the parties never did, anywhere in the negotiations, mutually discuss and rationally decide what the royalty obligations would be if Beckman ceased to produce any devices in a product line covered by licensed patent rights. Wright appears to have assumed that it was agreed that there

had to be some relationship to those rights, even though there were subsequent patentable improvements. He so indicated both in his May 11 correspondence and in his July 20, 1961, memorandum. His acquiescence, and the acquiescence of other Beckman personnel involved in the transaction, in the Steinmeyer draft sent to TDC is consistent with that assumption. The failure of the Offner negotiators to seek language which clearly obligated Beckman to pay royalties on all products, even if no licensed patent rights were involved—surely an unusual obligation for a licensee to assume—and their failure to object to the proposed paragraph 5 or to state in writing that basis for objecting to paragraph 12(b), are inconsistent with there being the intent of the parties claimed by TDC.

Once Steinmeyer became involved, some termination provision and a payment and reporting provision tied to the sublicenses were consistently in the Beckman drafts. Such a provision was not inconsistent with Wright's May references to patents. Steinmeyer's efforts initially to tie the royalty base directly to patent coverage and, later, to restrictively defined apparatus was inconsistent with the early and consistent agreement between the parties for a very broad royalty base, and those efforts were not fruitful.

The history of paragraph 12(b) is somewhat confused. Dr. Offner testified that Wright agreed to deletion of Steinmeyer's 12(b). That testimony, a new recollection 20 years later, appears to be illustrative of the human tendency for rationalizing the past to explain the present. The court believes Dr. Offner's recollection to be in error. Dr. Offner also claims that his suggested termination provision related to his wish to be free—in his employment relationship with Beckman—to pursue areas in which Beckman no longer had an interest, without having the fruit of his efforts going to Beckman.

Perhaps that was Dr. Offner's motivation for the suggestion, although, again, he was relying upon recollections of his state of mind 20 years ago. (Throughout, this court

has found, because of the passage of time, the past paper record more persuasive than present testimony.) Even if that is so, the record establishes that Steinmeyer was not privy to those concerns or, indeed, to Dr. Offner's or Glasser's concerns about Steinmeyer 12(b). Rather, within a few days of his circularizing the last draft, Steinmeyer had a call from Dr. Offner in which Dr. Offner suggested termination language different from Steinmeyer 12(b) and less precise, but language which clearly satisfied the concerns Steinmeyer had consistently expressed.

How that new clause became a replacement for the old paragraph 12(b) is also unclear. Steinmeyer does not recall talking to anyone about it except Dr. Offner. Given his role as the initiator of license language and as intra-Beckman reviewer of the impact of language, but not as negotiator, it is likely he talked to someone. That is particularly so since the new provision, while providing a mechanism for terminating sublicenses, did not, as had the prior clause, eliminate license estoppel from the license. Perhaps that elimination was what Dr. Offner had in mind in dropping such a clause from his last draft, but that, of course, is at this juncture speculation.

TDC insists that the Beckman contention that paragraph 12(b) related to the royalty base of a product line so long as, but only so long as, one product in the line was covered is somehow a new concept introduced by a desperate Beckman at this trial. But that concept was central to Judge Marshall's interpretation of the agreement back in 1977. Further, this court agrees with Judge Marshall's analysis of the "prior inconsistent positions" contentions raised by TDC, and it accords them little weight.

Finally, this court largely agrees with Judge Marshall's contract analysis, an agreement which rests in no small part upon the extrinsic evidence introduced since that analysis.

There remains one other issue. TDC contends that Beckman has not ceased to make use of a sublicense and that, therefore, even if paragraph 12(b) permits termination,

Beckman's purported termination is ineffective. The dispute relates to Beckman's sale of 9872 input couplers, plug-in modules used with dynographs. A dynograph is a direct-writing oscillograph designed to monitor and record diverse conditions such as heartbeats, brain waves, temperatures, vibrations, and blood pressures, and the like. The dynograph receives through an input coupler a signal and, after amplifying the signal, uses it as a means for a mechanical recording. A preamplifier is a component of the dynograph.

It is essentially undisputed that Beckman, prior to July 1, 1976, sold 481B and 461B preamplifiers, with and without 9872 input couplers; that the 481B and 461B preamplifiers did not alone come within any claims of Offner patents; that 481B and 461B in combination with a 9872 input coupler are within patent coverage; and that Beckman, in view of the broad royalty provisions, paid royalties on all 481B, 461B, and 9872 units sold, whether or not they were sold in combination. It is also essentially undisputed that Beckman ceased selling the 481B and 461B preamplifiers after July 1, 1976, and that it thereafter marketed a preamplifier which did not, in combination with the 9872 input coupler, make use of a sublicense. It is also essentially undisputed that Beckman has, from time to time since July 1, 1976, continued to sell 9872 input couplers to prior purchasers of 481B and 461B preamplifiers.

The 481B and 461B preamplifiers permitted the use of various input couplers, of which the 9872 was one, for use in various applications. The Offner combination patent claims brought the use of some input couplers, not relevant here, with the preamplifier within the coverage of the claims of one patent, even though the components are not themselves patented; the use of various other input couplers with the preamplifier is not within the coverage of any patent. Finally, the Beckman preamplifier marketed after July 1, 1976—its Model 461D—similarly makes provision for the use of various input couplers, of which the 9872 is one. The combination of the 461D and 9872 does

not infringe any Offner patent. An input coupler is, essentially, a wire means for conveying a signal from the recording device to the preamplifier; it is itself a relatively simple device.

Prior to July 1, 1976, Beckman sold 481B and 461B preamplifiers separately and paid royalties on each, not because they were each patented but because they were within the reach of the royalty provisions. Clearly, also, in the absence of the sublicenses, it would have been liable for contributory infringement if it had sold, as separate units, a 9872 coupler and either a 461B or 481B preamplifier to the same person in order that that person could use the patented combination.

TDC now contends that the present sales of 9872 couplers must be sales "under a sublicense" because the prior sales of those couplers were under a sublicense. The short answer is that prior sales of such couplers together with a 481B or 461B preamplifier were sales under a sublicense, and that royalties were, as a result, measured by, among other things, the sale of 9872 couplers whether or not they were under a sublicense. The issue here is whether Beckman, in selling 9872 couplers, made use of a sublicense because it otherwise would be liable for contributory infringement or for inducing direct infringement. And Beckman cannot be so liable unless someone directly infringed.

TDC's contention arises from Dr. Offner's testimony that Northwestern University had a dynograph with a 481B or 461B preamplifier, apparently purchased in 1965, and that it purchased a 9872 input coupler from Beckman in 1977. The dynograph is a major piece of equipment. Purchasers paid a royalty through the purchase price because of the sublicense agreement. The equipment was promoted as versatile and adaptable to a number of applications by the use of 9800 series input couplers. There were no indications of any patent restrictions in the use of any 9800 series input couplers. It would surely have come as some surprise to Northwestern University in

1977 if it had been told that it thereafter was restricted in the use of its equipment to applications which used certain 9800 series input couplers but could not use it for other applications.

The facts are not squarely within the axiom that the "sale of a patented article by the patentee or under his authority carries with it an 'implied license to use.'" *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964), because the dynograph itself was unpatented and it could be used in some applications without infringing the patent. By TDC's theory, purchase of a 9872 input coupler may not be a replacement at all, whether repair or reconstruction, but the purchase of that which completes the patented combination. While the evidence leaves unclear the reasons why Northwestern University made its particular purchase, it is clear that Beckman since 1976 has promoted the sale of 9872 input couplers to owners of 461B and 481B preamplifiers without regard to whether or not they had ever purchased such a coupler before.

Superficially, those facts bear some resemblance to those in *Leeds & Catlin v. Victor Talking Machine Co.*, 213 U.S. 325 (1909), but the days when the purchase of a record for a talking machine was a major event are far removed from a market in which complicated equipment is promoted for multiple uses through interchangeable accessories. Unless he is told otherwise at the time of sale, the purchaser quite reasonably expects that he can acquire those accessories necessary for full use of the equipment without running afoul of the patent laws. The concept of implied licenses has been somewhat impacted by the fact situations in which it has been discussed, by the effort to reach rational results through a distinction between reconstruction and repair, and by the changing symbiotic relationship of contributory infringement and patent misuse, *see Dawson Chemical Co. v. Robin & Haas Co.*, 448 U.S. 176 (1980). An implied license ultimately, however, must rest upon reasonable expectations induced by the patentee. A form of implied contract, it stems from the

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same legal reasoning which gives rise to the implication from the conduct of the parties of indefinite terms in an otherwise definite contract and to promissory and equitable estoppel. A person cannot induce reliance by another and then change the rules of the game. And a purchaser of major equipment, a transaction knowingly authorized by the patentee without any restrictions, most certainly reasonably expects that he can acquire whatever accessories are necessary for all the uses contemplated and encouraged upon sale, whether or not some use or another may be within the coverage of a patent and regardless of any change in the relationship between supplier and patentee.

If, as this court concludes, the sale of the dynographs prior to July 1, 1976, implied a license to use with whatever couplers were necessary or appropriate for full use, even if such couplers in combination with the preamplifier would infringe a patent, the purchasers were free to acquire those accessories anywhere. Accordingly, Beckman, in making a sale of a 9872 input coupler, was not relying upon any sublicense granted to it. Further, absent direct infringement, there could be neither contributory infringement nor inducement to infringe. It is, therefore, unnecessary to discuss the contributory infringement and inducement contentions advanced by the parties.

For the reasons stated, judgment is granted to the plaintiff.

/s/ James B. Moran
JAMES B. MORAN
Judge, United States District Court

December 20, 1982.

A true Copy:

Teste:

*Clerk of the United States Court of Appeals for the Seventh Circuit*

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## APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT
CHICAGO, ILLINOIS 60604

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**Before**
**Hon. WILLIAM J. BAUER, Circuit Judge**
**Hon. JOHN L. COFFEY, Circuit Judge**
**Hon. JOEL M. FLAUM, Circuit Judge**

**No. 83-1136**
**Appeal from the United States Court for the Northern District of Illinois, Eastern Division.**

**No. 76 C 2488**
**James B. Moran, Judge.**

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BECKMAN INSTRUMENTS, INC., a California corporation,
*Plaintiff-Appellee,*

vs.

TECHNICAL DEVELOPMENT CORPORATION,
*Defendant-Appellant.*

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BURNS, DOANE, SWECKER & MATHIS
Received May 4, 1984

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## ORDER

On consideration of the petition or rehearing and suggestion for rehearing *en banc* filed in the above-entitled cause by Defendant-Appellant Technical Development Corporation, no judge in active service has re-

quested a vote thereon, and all of the judges on the original panel have voted to deny a rehearing. Accordingly,

It is ordered that the aforesaid petition for rehearing be, and the same is hereby, DENIED.

# APPENDIX C

## SUBLICENSE AGREEMENT

### 1. Parties

The parties to this agreement are Technical Development Corporation, an Illinois corporation (hereinafter called TDC) and Beckman Instruments, Inc., a California corporation (hereinafter called Beckman).

### 2. Consideration

The consideration for this agreement is the mutual promises of the parties and the benefits flowing to, and the detriments suffered by, the parties from the making of this agreement.

### 3. Definitions

For the purposes of this agreement:

(a) "Direct-writing Oscillograph" means a device for producing and permanently recording upon paper or similar media representations of time-varying electric currents, with a stylus which directly contacts the recording media or with integral xerographic means operated directly by the time-varying alectric currents without intermediate visible recording of a trace; and including associated equipment which is an integral part thereof, andprimarily intended for use therewith.

(b) "Amplifier" means a device for producing an output which is a function of an input signal.

(c) "Electroencephalograph" means a device for measuring electrical current generatd by the brain and comprising a plurality of electrodes adapted for attachment t the scalp or to be inserted onto or into the brain, one or moer channels for amplifying signals obtained by means of said electrodes, and means for recording the

output of the channels to *obtain an electroencephalogram.*

(d) "Electric Shock Therapy Apparatus" means a device for applying electrical stimulation to patients to provide electro-stimulative therapy comprising means for generating stimulative current and means for applying such current to patients.

(a) "Licensed Patent Rights" means (1) all patent applications and issued patents listed on Exhibit A hereof; (2) all patent applications filed after the effective date of this agreement upon inventions (i) relating to apparatus and parts thereof licensed under paragraph 4 of this agreement and (ii) made or conceived by Franklin F. Offner before and exclusively licensed to TDC after the effective date of this agreement; (3) all foreign patent applications which may be filed hereafter corresponding to the aforesaid patent applications and patents and (4) all patents issuing upon the aforesaid patent applications including reissues, renewals, divisions, and extensions.

(f) "Gross sales price" means Beckman's invoice price f.o.b. factory less deductions for returns, allowances, and trade and quantity discounts.

(g) "Apparatus Subject To Royalty" means the following:

1. Direct-writing Oscillographs (i) made by all Divisions of Beckman and its subsidiaries but excluding all those devices having servometer-operated stylus drives and (ii) made by the Offner Division of Beckman unless made at the request of another Division of Beckman and to its design:

2. Amplifiers made by the Offner Division of Beckman for all purposes, unless made at the request of another Division of Beckman and to its design;

3. Electroencephalographs;

4. Electric Shock Therapy Apparatus;

5. All apparatus other than that listed in items 1 through 4 of this subparagraph which are covered per se by any allowed claim, or by any claim under a patent application under said Licensed Patent Rights, excluding (i) apparatus of types manufactured or sold by Beckman before the effective date of this agreement and modifications or improvements thereon and (ii) apparatus the manufacture of which is initiated by Beckman after the effective date of this agreement not primarily as the result of the acquisition of the sublicenses herein granted;

6. Spare and replacement parts for the apparatus of items 1 through 5.

(h) "Subsidiary" means a company fifty per cent or more of whose issued and outstanding shares of stock entitled to vote for the election of directors are owned or controlled, directly or indirectly, by Beckman.

(i) "Offner Division" means that portion of Beckman which derives directly from the transfer to Beckman of the business of Offner Electronics, Inc., an Illinois corporation.

**4. Sublicenses Granted**

(a) TDC grants and agrees to grant to Beckman and its subsidiaries under Licensed Patent Rights an exclusive sublicense to make, have made, use and sell throughout all countries of the world the following apparatus and parts thereof, including all improvements thereupon and modifications thereof:

1. Direct-writing Oscillographs
2. Amplifiers
3. Electroencephalographs and
4. Electric Shock Therapy Apparatus.

(b) TDC further grants and agrees to grant to Beckman and its subsidiaries under Licensed Patent Rights a

non-exclusive sublicense to make, have made, use and sell througout all countries of the world all other apparatus except products having principal usage and application in the field of control of aircraft engines and propellers.

5. **Reports and Payments**

(a) Beckman shall make written reports to TDC semi-annually within thirty (30) days after the first day of each January and July during the term of this agreement, and as of such dates, stating in each such report the number, nomenclature and gross sales price of Apparatus Subject To Royalty sold by Beckman and its subsidiaries under the sublicenses herein granted during the preceding six (6) calendar months.

(b) Beckman further shall make a written report to TDC within thirty (30) days after the date of termination of this agreement, stating in such report the number, nomenclature and gross sales price of Apparatus Subject To Royalty sold by Beckman and its subsidiaries under the sublicenses herein granted and not previously reported to TDC.

(c) Concurrently with the making of each such report as provided in subparagraphs (a) and (b) of this paragraph 5, Beckman shall pay to TDC royalties as follows:

1. For the first four (4) years from the effective date of this agreement, at the rate of five per cent (5%) upon the first four million dollars ($4,000,000) of gross sales price of Apparatus Subject To Royalty included in such reports in each of said first four (4) years and at the rate of three per cent (3%) of all gross sales price of Apparatus Subject To Royalty included in such reports in excess thereof;

2. For the nest eight (8) years following the first four (4) years from the effective date of this agreement, at the rate of two per cent (2%) upon the first

four million dollars ($4,000,000) of gross sales price of Apparatus Subject To Royalty included in such reports in each of said next eight (8) years and at the rate of three per cent (3%) of all gross sales price of Apparatus Subject To Royalty included in such reports in excess thereof;

3. For all remaining years during the life of this agreement, at the rate of three per cent (3%) of the gross sales price of all Apparatus Subject To Royalty included in such reports.]

(d) Notwithstanding any other provisions of this paragraph 5 or other paragraphs of this agreement, Beckman shall not be obligated to pay royalties hereunder to TDO in excess of five million dollars ($5,000,000) for manufacture, use and sale of Apparatus Subject To Royalty by Beckman and its subsidiaries. If TDC receives the total sum of five million dollars ($5,000,000) in royalties hereunder from manufacture, use and sale by Beckman and its subsidiaries of Apparatus Subject To Royalty, the sublicenses granted hereunder to Beckman and its subsidiaries shall automatically become fully paid and irrevocable by TDC except as provided in the exceptionary clause of subparagraph 12(a) hereof.

(e) Under this agreement Apparatus Subject To Royalty shall be considered to be sold when billed out, except that upon termination, all shipments made on or prior to date of such termination which have not been billed out prior thereto shall be considered as sold (and therefore subject to royalty). Royalties paid on Apparatus Subject To Royalty not accepted by a customer shall be credited to Beckman.

(f) Only one royalty shall be paid hereunder on Apparatus Subject To Royalty, and such royalty shall be payable with respect to the first sale of such Apparatus.

**6. Keeping Records**

Beckman shall kepp records showing sales of Apparatus Subject To Royalty under the sublicenses herein granted (and required to be reported in accordance with paragraph 5 hereof) in sufficient detail to enable the parties to ascertain the correct amount of royalties to be paid hereunder. Beckman shall permit its books and records to be examined from time to time for the purpose only and to the extent necessary to verify the reports provided for in paragraph 5, such examination to be made at the expense of TDC by an independent auditor who may obtain such independent technical assistance as he deems necessary and who shall report to TDC only the amount of royalties due and payable.

**7. Warranties and Representations of TDC**

TDC warrants and represents as follows:

(a) That it has the power and right to grant the sublicenses herein granted and agreed to be granted, and that it has not executed and will not execute any agreement in conflict therewith;

(b) That the patents and patent applications listed on Exhibit A hereof include all patents and patent applications under which TDC has the right to grant sublicenses with respect to the apparatus herein license.

**8. Sub-sublicenses**

Beckman may grant sub-sublicenses to others under Licensed Patent Rights with respect to apparatus for which it is exclusively licensed under subparagraph 4(a) above, provided, however, that Beckman shall include in any semiannual report (made under paragraph 5 hereof) and pay to TDC concurrently therewith a sum equal to one half of the royalties received from any such sub-

sublicensee during such report period; and provided, further, that any sum so paid to TDC by Beckman shall be equal to not less than two and one half per cent (2½%) of the gross sales price of apparatus sold and reported to Beckman by any such sub-sublicensee during such report period under the sub-sublicense granted to it. Any sub-sublicense granted by Beckman hereunder shall not be used by Beckman for the purpose of effecting an assignment of the business acquired by Beckman from Offner Electronics, In

**9. Prosecution of Patent Applications**

All Office Actions and responses concerning patent applications included in License Patent Rights shall be promptly communicated to Beckman. Beckman shall not be obligated to share any of the expenses or attorneys' fees connected with the patent applications now pending. Beckman shall, however, bear the full expense of prosecution of any patent applications which are filed and prosecuted at the specific written request of Beckman.

**10. Prosecution of Infringers**

TDC shall have the prior right to prosecute suits for infringement of Licensed Patent Rights. In the event of alleged infringement by others, which shall materially interfere with the business of Beckman in Apparatus Subject To Royalty under such Licensed Patent Rights, Beckman may serve notice on TDC of such alleged infringement, which notice shall specify the details of such alleged infringement including:

(a) the number of the patent involved,

(b) specific information as to the products being manufactured and sold allegedly in violation,

(c) specifically the basis for the allege infringement, and

(d) other details in Beckman's possession pertaining thereto.

If TDC does not take action against the alleged infringers within 90 days from such notice and proceed diligently against such infringement, then Beckman may proceed against such infringer. If Beckman does so proceed, it may settle the controversy on such terms as it sees fit; provided, however, that if any such controversy is settled before the first deposition is taken by either party in any suit that may be filed by Beckman, or is settled without suit having been filed, Beckman and TDC shall share equally the net amount (if any) realized by Beckman from such settlement for past infringement after payment of all out-of-pocket costs, including attorneys' fees and other expenses, incurred by Beckman in the course of such settlement. If a suit filed by Beckman is settled after the first deposition is taken by either party, Beckman and TDC shall share the net amount (if any) realized by Beckman from such settlement for past infringement in the ratio of four (4) to one (1) respectively. Any share of settlement to which TDC is entitled hereunder shall be reported and paid to TDC by Beckman promptly after such settlement.

**11. Patent Marking**

Beckman shall mark, and require any of its sub-sublicensees to mark, all Apparatus Subject To Royalty hereunder which embodies a claim of any issued patent of Licensed Patent Rights with any required statutory patent notice.

**12. Term: Termination**

(a) If Beckman shall at any time default in the payment of any royalty or the making of any report hereunder, or shall commit any breach of any covenant herein contained, or shall make any false report and shall fail to remedy any such default, breach or false report within thirty (30) days after written notice thereof by TDC, the latter may, at its option, terminate this agreement by notice to such effect; but no such termination shall affect the fully paid and irrevocable sublicenses to Beckman provided under subparagraph 5(d) hereof except if Beckman (i) shall knowingly submit to TDC a report fraudulently stating the amount of royalties payable to TDC upon sales reported and royalties paid to Beckman by its sub-sublicensees after such sublicenses of Beckman have become fully paid and irrevocable by TDC and (ii) shall not remedy such fraudulent report within thirty (30) days after written notice thereof by TDC.

(b) If Beckman does not make use of any sublicense granted hereunder, with respect to any patent, claim or field of use, and if Beckman further declares in writing to TDC that it has no wish in the future to use such patents or claim, or to engage in such field, then the sublicense granted hereunder shall to that extent only be terminated.

(c) Unless previously terminated in accordance with the foregoing provisions of this paragraph 12, this agreement and the sublicenses granted hereunder to Beckman shall run to the date of expiration of the last to expire of United States Letters Patent included in Licensed Patent Rights.

(d) Any termination of this agreement shall not relieve Beckman from any liability under paragraph 5 for payment of royalties on Apparatus Subject To Royalty

sold under the sublicenses herein granted prior to the date of such termination, shall not prejudice the right of TDC to recover any royalty or other sum due or accrued at the time of such termination, and shall not prejudice any cause of action or claim of TDC accrued or to accrue on account of any breach or default by Beckman.

**13. Right of Assignment**

(a) The obligations of Beckman hereunder, including the obligations to report and pay royalties, shall run in favor of the successors and assigns or other legal representatives of TDC.

(b) Beckman shall have the right to assign the licenses granted hereunder only in the event it shall sell substantially all of its stock or assets to a person or corporation, and then only to such person or corporation. In the event of such assignment, the assignee shall accept in writing the provisions of this agreement, and agree to become bound by the terms hereof; and such assignment shall not become effective until the acceptance has been executed and delivered to TDC.

**14. Notices**

All notices provided for in this agreement shall be in writing and shall be considered delivered when deposited in the United States mail, certified postage prepaid, addressed to the respective parties as follows:

BECKMAN: Beckman Instruments, Inc.
2500 Harbor Blvd.
Fullerton, California
Attention: Patent Department

TDC: Irving Hoffman, President
Technical Development Corp.
6325 North Whipple Street
Chicago 45, Illinois

or to such other addresses as may be designated by the respective parties in writing.

**15. Headings**

The paragraph titles are for convenience only and are not part of the context of this agreement.

**16. Situs of Agreement and Applicable Law**

This agreement is made and entered into in the County of Cook, State of Illinois, and shall be construed in accordance with the laws of the State of Illinois.

**17. Bankruptcy**

In the event Beckman or any successor shall be adjudged a bankrupt, or a receiver be appointed for the company, or a proceeding for reorganization be filed by or against the company and said proceeding not dismissed within 30 days, then and in that event all licenses granted to Beckman shall immediately terminate.

**18. Arbitration**

Any controversy between the parties hereto regarding (1) whether or not certain apparatus sold by Beckman and its subsidiaries falls within the scope of Licensed Patent Rights or Apparatus Subject To Royalty as defined in paragraph 3 hereof or (2) payments made by Beckman to TDC (i) as royalties upon sales of Beckman and its subsidiaries, or (ii) as the share of TDC in royalties paid to Beckman by its sub-sublicensees, or (iii) as the share of TDC in net amounts realized by Beckman from settle-

ments for past infringement, shall be settled and determined by arbitration in the City of Chicago in accordance with the rules and regulations then obtaning of the American Arbitration Association. Judgment upon the award rendered may be entered in any State or Federal court of competent jurisdiction for purposes of enforcement.

**19. Special Agreements**

(a) Failure by either party hereto to exercise or enforce any right or to terminate this agreement for any breach shall not be deemed a waiver of the right so to do in the event of persistence by such party in a breach of continuing nature or any subsequent breach by such party.

(b) The rights and remedies of the parties hereunder shall not be exclusive of each other, but such rights and remedies shall be cumulative.

**20. Entire Agreement and Amendments**

This instrument contains the entire and only agreement between the parties respecting the subject matter hereof; and any representation, promise or condition in connection therewith not incorporated herein shall not be binding upon either party. No modification, renewal, extension or waiver, and no termination (except as provided in paragraph 12 hereof) of this agreement or any of the provisions herein contained shall be binding upon the party against whom enforcement of such modification, renewal, extension, waiver or termination is sought, unless it is mae in writing and signed in its behalf by one of its executive officers. As used herein, the word "termination" includes any and all means of bringing to an end prior to its expiration by its own terms this agreement, or any provisions thereof, whether by release, discharge, abandonment or otherwise.

**21. Effective Date**

The effective date of this agreement is August 8, 1981.

ATTEST: TECHNICAL DEVELOPMENT CORPORATION

By ______________________________

ATTEST: BECKMAN INSTRUMENTS, INC.

By ______________________________

**EXHIBIT A**

United States Patent Numbers:

| | |
|---|---|
| 2,573,596 | |
| 2,662,372 | Reissue 24,809 |
| 2,665,729 | |
| 2,438,875 | |
| 2,488,430 | |
| 2,517,703 | |
| 2,712,309 | |
| 2,739,478 | |
| 2,761,645 | |
| 2,897,720 | |
| 2,931,699 | |
| 2,931,985 | |
| 2,954,529 | |
| 2,977,112 | |
| 2,697,908 | Reissue application 510,598 |
| 2,517,702 | |

United States Patent Application Serial Numbers:

464,435
597,455
426,325
790,498
464,435

Foreign Patent Numbers

| | |
|---|---|
| Great Britain | 675,368 |
| Canada | 512,646 |
| France | 969,420 |
| Great Britain | 678,505 |

# APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

---

7662488

---

BECKMAN INSTRUMENTS, INC., a California corporation,
*Plaintiff,*

v.

TECHNICAL DEVELOPMENT CORPORATION, an Illinois corporation, and FRANKLIN F. OFFNER,
*Defendants.*

---

JUDGE MARSHALL

## COMPLAINT

Now comes plaintiff, Beckman Instruments, Inc., a California corporation (hereinafter "Beckman"), and for its complaint against defendants, Technical Development Corporation, an Illinois corporation (hereinafter "TDC"), and Fraklin F. Offner (hereinafter "Offner"), states:

### COUNT I

#### Jurisdiction

1. (a) This Court has jurisdiction over the subject matter of this claim by virtue of the provisions of 28 U.S.C. § 1332.

(b) Beckman is a corporation organized and existing under the laws of the State of California with its

principal place of business located in Fullerton, California.

(c) TDC is a corporation organized and existing under the laws of the State of Illinois with its principal place of business located in Chicago, Illinois.

(d) Offner is a citizen of the State of Illinois.

(e) The amount in controversy, exclusive of interest and costs, exceeds the sum of $10,000.

### Nature Of Action

2. This is an action for a declaratory judgment pursuant to the terms and provisions of 28 U.S.C. §§ 2201 and 2202. Beckman seeks a declaration of the rights of the parties under the terms and provisions of that certain sublicense agreement dated August 8, 1961, between TDC as sublicensor and Beckman as sublicensee, all as more fully set forth below.

### The Controversy

3. On or about August 8, 1961, Beckman and TDC entered into a sublicense agreement, a true copy of which is annexed hereto as Exhibit A, whereby TDC granted to Beckman; under licensed patent rights, an exclusive sublicense to make, have made, use and sell throughout the world certain apparatus and parts. In addition, TDC granted to Beckman, under licensed patent rights, a non-exclusive sublicense to make, have made, use and sell through the world certain other apparatus.

4. TDC's power and authority to grant sublicenses is derived from the terms and provisions of that certain license agreement between Offner, as licensor, and TDC, as licensee, dated February 14, 1955, whereby TDC was granted an exclusive license under a number of patents held by Offner as patentee.

5. The sublicense agreement provides, inter alia, that Beckman shall make written reports semi-annually to TDC setting forth certain information with respect to the products falling within the definition of "apparatus subject to royalty" under the sublicense agreement which had been sold by Beckman during the preceding six-month period and, concurrently with the making of each such report, that Beckman pay to TDC specified percentages of the gross sales price of such apparatus subject to royalty included in such reports." In the absence of termination pursuant to paragraph 12 of the sublicense agreement, Beckman's obligation to pay royalties upon its gross sales of apparatus subject to royalty ceases when the sum of $5,000,000 has been paid to TDC, at which point the sublicenses granted to Beckman become fully paid and irrevocable. As of the date hereof, the royalties paid by Beckman to TDC under the sublicense agreement aggregate $1,901,889.81.

6. Paragraph 12 of the sublicense agreement entitled "Term: Termination", sets forth the terms and conditions upon which the sublicenses may be terminated. Subparagraph (a) of paragraph 12 provides for termination in the event of certain defaults by Beckman which are not cured after rotice from TDC. Subparagraphs (b) and (c) provide:

> "(b) If Beckman does not make use of any sublicense granted hereunder, with respect to any patent, claim or field of use, and if Beckman further declares in writing to TDC that it has no wich in the future to use such patent or claim, or to engage in such field, then the sublicense granted hereunder shall to that extent only be terminated.
>
> "(c) Unless previously terminated in accordance with the foregoing provisions of this paragraph 12, this agreement and the sublicenses granted hereun-

der to Beckman shall run to the date of expiration of the last to expire of United States Letters Patent included in Licensed Patent Rights."

7. By written notice dated July 1, 1976, a true copy of which is annexed hereto as Exhibit B, Beckman advised TDC that it does not make use of any sublicense granted under the sublicense agreement and that it has no wish in the future to use any patent as to which a sublicense had been granted.

8. TDC and Offner have, from time to time, advised Beckman that Beckman's obligation to pay royalties under the sublicense agreement exists so long as Beckman continues to manufacture and sell any products which fall within the definition of "apparatus subject to royalty" under the sublicense agreement even though Beckman no longer utilizes any patent for which a sublicense was granted and disclaims any right to use any such patent in the future. TDC and Offner have further asserted that Beckman's obligation to pay royalties can be terminated only by the payment of the aggregate amount of $5,000,000 or by the expiration of the last sublicensed patent, whichever first occurs. TDC and Offner further contend that Beckman's obligation to pay royalties cannot be terminated prior to the occurrence of either of the above described events other than by the total cessation of manufacture and sale of any products which fall within the definition of "apparatus subject to royalty" under the agreement.

9. Beckman contends that, pursuant to the provisions of pargraph 12(b) of the sublicense agreement, its obligation to pay royalties is terminated if Beckman does not make use of any sublicense granted by TDC with respect to any patent and, in addition, Beckman declares in writing to TDC that it has no wish in the future to use any patent for which a sublicense had been granted.

10. By reason of the foregoing, a justiciable controversy exists between the parties as to which Beckman seeks a declaration of its rights and obligations under the sublicense agreement dated August 8, 1961.

WHEREFORE, plaintiff, Beckman Instruments, Inc., respectfully requests the Court to declare and find:

(a) That upon Beckman's compliance with the requirements of paragraph 12(b) of the sublicense agreement dated August 8, 1961, the sublicense is lawfully terminated and the obligation of Beckman to pay royalties thereunder to TDC ceases.

(b) That, in the absence of proof that Beckman has failed to meet the requirements of paragraph 12(b) of the sublicense agreement, the obligation of Beckman to pay royalties thereunder to TDC ceased upon the date of the notice to TDC from Beckman in accordance with the provisions of paragraph 12(b) of the sublicense agreement;

(c) That Beckman is entitled to such other and further relief as the Court shall deem appropriate under the circumstances.

## COUNT II

In the alternative, plaintiff, Beckman Instruments, Inc., complains of the defendants, Technical Development Corporation and Franklin F. Offner, as follows:

### Jurisdiction

1. This Court has jurisdiction over the subject matter of this alternative claim by virtue of the provisions of 28 U.S.C. § 1337.

**Nature of Action**

2. This claim arises under § 1 of the Sherman Act (15 U.S.C., § 1) and § 16 of the Clayton Act (15 U.S.C. 26). Beckman seeks the entry of a permanent injunction restraining conduct constituting an unreasonable restraint of trade in contravention of § 1 of the Sherman Act.

**The Villation**

3-9. Beckman hereby re-alleges paragraphs 3 through 9 of Count I, as paragraphs 3 through 9 of this Count II.

10. Beckman is engaged in the manufacture and sale throughout the United States and in foreign countries of a wide range of scientific instruments, electronic components and fine chemicals. Beckman's products, or components thereof, which fall within the definition of "apparatus subject to royalty" set forth in the sublicense agreement, are sold in interstate commerce.

11. If the position adopted by TDC and Offner with respect to Beckman's termination rights under the sublicense agreement constitutes the only proper interpretation which can be placed upon this agreement, then the terms and provisions of the sublicense agreement constitute a use of the license patents in a manner and with objectives which violate § 1 of the Sherman Act in that:

(a) Beckman is faced with choosing between the total cessation of manufacture and sale of all products which fall within the definition of "apparatus subject to royalty", or the continued payment of royalties to TDC despite the fact that (i) no patent is being used, (ii) no patent protection is afforded for any of the products being manufactured and sold by Beckman and (iii) Beckman has given a written disclaimer of any intent to use the licensed patents in the future;

(b) Beckman is deprived of an equal opportunity to compete in the relevant market for unpatented products, which are competitive with those encompassed within the definition of "apparatus subject to royalty" under the sublicense agreement, by reason of the additional costs of production and sale resulting from the royalty payments to TDC. As a result, competition in such unpatented products is hindered and unreasonably restrained.

12. The interpretation adopted by TDC and Offner of the sublicense agreement with respect to Beckman's termination rights would render that sublicense agreement a contract unreasonably in restraint of trade, and further constitutes a combination and conspiracy to unreasonably restrain trade on the part of these defendants in violation of § 1 of the Sherman Act. If this Court were to declare and find Beckman's termination rights under the sublicense agreement in accordance with the interpretation of defendants, Beckman would be threatened with immediate and irreparable injury to its business by reason of the adverse competitive impact, described above, resulting therefrom.

WHEREFORE, plaintiff, Beckman Instruments, Inc., prays:

(a) That if the Court shall declare and find that the plaintiff, Beckman Instruments, Inc., is not entitled to terminate the sublicense agreement of August 8, 1961, without discountinuing its manufacture and sale of unpatented products which fall within the definition of "apparatus subject to royalty", then it also shall declare and find that the sublicense agreement of August 8, 1961, is illegal and unenforceable as an agreement in restraint of trade and in violation of § 1 of the Sherman Act;

(b) That a permanent injunction issue which shall enjoin and restrain defendants from enforcing the terms

and provisions of the sublicense agreement of August 8, 1961; and

(c) For such other and further relief as the Court shall deem appropriate under the circumstances.

COUNT III

In the alternative, plaintiff, Beckman Instruments, Inc., complains of the defendants, Technical Development Corporation and Franklin F. Offnerr, as follows:

1-11. Beckman hereby re-alleges paragraphs 1 through 9 of Count I and paragraphs 10 and 11 of Count II, as paragraphs 1 through 11 of this Count III.

12. If the position adopted by TDC and Offner with respect to Beckman's termination rights under the sublicense agreement constitutes the only proper interpretation which can be placed upon this agreement, then the terms and provisions of the sublicense agreement constitute a misuse of the sublicensed patents in that:

(a) Defendants have conditioned Beckman's right to sell unpatented products, which fall within the definition of "apparatus subject to royalty", upon the continued acceptance of unnecessary patent licenses and the payment of royalties therefor; and

(b) Defendants have unlawfully extended the sublicensed patents beyond the scope of the monopoly granted.

WHEREFORE, plaintiff, Beckman Instruments, Inc., respectfully requests:

(a) That if the Court shall declare and find that the plaintiff, Beckman Instruments, Inc., is not entitled to terminate the sublicense agreement of August 8, 1961, without discontinuing its manufacture and sale of unpatented products which fall within the definition of

"apparatus subject to royalty", then it also shall declare and find that the sublicense agreement of August 8, 1961, is unenforceable; and

(b) That Beckman is entitled to such other and further relief as the Court shall deem appropriate under the circumstances.

BECKMAN INSTRUMENTS, INC.,
Plaintiff,

Sheldon Karon

---

SHELDON KARON

Reginald K. Bailey

---

REGINALD K. BAILEY

Clemens Hufmann

---

CLEMENS HUFMANN

Robert J. Steinmeyer,

---

ROBERT J. STEINMEYER,

Its Attorneys.

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Chicago, Illinois 60606
876-0660

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Chicago, Illinois 60606
346-1677

ROBERT J. STEINMEYER, ESQ.
2500 Harbor Boulevard
Fullerton, California 92634
(714) 871-4848

(2)

No. 84-178



# In the Supreme Court of the United States

OCTOBER TERM, 1984

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TECHNICAL DEVELOPMENT CORPORATION,

*Petitioner,*

vs.

BECKMAN INSTRUMENTS, INC.,

*Respondent.*

---

## BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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*Attorney for Respondent*

*Of Counsel:*
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Fullerton, California 92634

UNITED STATES LAW PRINTING CO., CHICAGO, ILLINOIS 60618 (312) 525-6581

## QUESTION PRESENTED

Should this Court grant certiorari when the decision of the Court of Appeals for the Seventh Circuit was based upon an interpretation of the contract between the parties, permitting Beckman Instruments, Inc. ("Beckman") to properly terminate a patent sublicense agreement with Petitioner?

## RULE 28.1 DECLARATION

Respondent Beckman Instruments, Inc., during the course of the proceedings below, was acquired by Smith-Kline Corporation and the resulting company has been renamed SmithKline Beckman Corporation.

Respondent has no other affiliates or subsidiaries.

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## *Statutes*



## *Treatises*

# In the Supreme Court of the United States

October Term, 1984

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## No. 84-178

---

**TECHNICAL DEVELOPMENT CORPORATION,**

*Petitioner,*

vs.

**BECKMAN INSTRUMENTS, INC.,**

*Respondent.*

---

## BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

---

## OPINIONS AND JUDGMENTS DELIVERED BELOW

The opinion of the Court of Appeals for the Seventh Circuit is now officially reported at 730 F.2d 1076 (7th Cir. 1984). The Seventh Circuit affirmed and adopted the opinion of the District Court for the Northern District of Illinois, Eastern Division, granting judgment to Respondent, which is reprinted in the same volume following the Seventh Circuit opinion.[1] The order of the Court of Appeals for the Seventh Circuit denying rehearing is not officially reported.

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[1] Those opinions are reprinted in the Appendix to Petition for Certiorari, as is the sublicense agreement between the parties. References to that Appendix in this brief shall be "A. ____."

## STATUTE INVOLVED

Although no federal statute is directly involved, 35 U.S.C. § 271(c) was employed by the courts below as an aid in interpreting the contract between the parties. Section 271(c) provides:

> Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

## STATEMENT OF THE CASE

### A. Proceedings Below

This declaratory judgment action was brought by Respondent Beckman against Petitioner Technical Development Corporation ("TDC") in the District Court pursuant to 28 U.S.C. §1332 and 1337. (A. 36a-44a)[2] The

[2] Count I of the complaint was the only count litigated by the parties. Count I sought a declaration of lawful termination of the sublicense agreement between the parties, and subject matter jurisdiction was based upon diversity of citizenship (28 U.SC. §1332). Count II sought a declaration that the agreement violated Sections 1 and 16 of the Sherman and Clayton Acts, respectively, in the event that termination of the agreement in accordance with Beckman's interpretation was not declared lawful, and jurisdiction was based upon 28 U.S.C. §1337. Count III, phrased in the alternative to Count II, sought a declaration of patent misuse in the event that termination of the agreement by Beckman was not declared lawful. Jurisdiction of Count III was based upon diversity of citizenship (28 U.S.C. §1332). TDC counterclaimed for a declara-

(footnote continued)

gravamen of the suit was that Beckman had lawfully terminated a patent sublicense agreement, and accordingly had no further obligation to pay royalties thereunder. Upon cross-motions for summary judgment, Judge Prentice H. Marshall of the Northern District of Illinois, Eastern Division, found that the terms of the sublicense agreement were "quite straight forward," that Beckman had lawfully terminated the agreement and that, accordingly, Beckman had no further royalty obligation.

TDC appealed from the judgment in favor of Beckman to the Seventh Circuit Court of Appeals. That Court, in an unpublished order, reversed the grant of summary judgment, holding:

> Although we cannot say that the interpretation of the agreement adopted by the District Court is erroneous, we find the agreement ambiguous. TDC, therefore, was entitled to offer extrinsic evidence as an aid to the court's interpretation.

Upon remand, Judge James B. Moran of the Northern District of Illinois, Eastern Division, conducted the trial, heard the testimony of witnesses, and reviewed the exhibits. In his Memorandum and Order entered December

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(footnote continued)

tory judgment that the agreement remained in force despite Beckman's attempt to terminate it. Jurisdiction of the counterclaim was based upon §1332.

In its initial brief in the Seventh Circuit, TDC characterized the jurisdiction of the district court as "invoked under 28 U.S.C. §1332 and 28 U.S.C. §1337." Until TDC's petition for rehearing before the Seventh Circuit Court of Appeals and its petition for certiorari in this Court, TDC never considered this case to involve a federal question under the patent statutes.

20, 1982, he granted judgment to Beckman, confirming that the extrinsic evidence supported Judge Marshall's earlier interpretation of the sublicense agreement. (A. 6a-19a)

On March 22, 1984, the Court of Appeals for the Seventh Circuit affirmed the District Court's judgment and findings that Beckman had properly terminated the sublicense agreement. (A. 1a-5a)

**B. The Sublicense Agreement**

The dispute centered upon a patent sublicense agreement dated August 8, 1961 between TDC, as sublicensor, and Beckman, as sublicensee. (A. 22a-35a) Pursuant to the terms of the sublicense agreement, TDC granted sublicenses to Beckman with respect to certain patents and patent applications exclusively licensed to TDC by a patent holder, Franklin F. Offner.

The agreement identified four types of apparatus that were subject to royalty: direct-writing oscillographs, amplifiers, electroencephalographs and electric shock therapy devices (Para. 3; A. 22a-23a), and referenced twenty-one United States patents and patent applications. (A. 34a) The agreement also provided for reporting of royalty obligations, requiring periodic payments for sales of the four enumerated types of apparatus sold "under the sublicenses herein granted." (Para. 5; A. 25a-26a) The agreement contained a provision limiting the amount of royalty to be paid to a maximum of $5,000,000 over the course of the entire agreement. (Para. 5(d); A. 26a)

By correspondence dated July 1, 1976, Beckman advised TDC that Beckman no longer was making use of any sublicenses granted, and that it would not make any such use in the future. (A. 6a) The termination provision invoked

by Beckman's notice was paragraph 12(b) of the agreement, which provides:

> (b) If Beckman does not make use of any sublicense granted hereunder, with respect to any patent, claim or field of use, and if Beckman further declares in writing to TDC that it has no wish in the future to use such patents or claim or to engage in such field, then the sublicense granted hereunder shall to that extent only be terminated. (A. 30a)

Since TDC considered Beckman obligated to pay royalties notwithstanding any termination of the sublicense agreement pursuant to paragraph 12(b), Beckman filed its suit for declaratory judgment. (A. 36a-44a)[3] The suit turned upon competing theories of the interpretation of the agreement. On TDC's appeal to the Court of Appeals, the interpretation of the agreement was the main issue. As Judge Bauer wrote for the unanimous panel of the Seventh Circuit:

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[3] The termination provision of the sublicense agreement had been the subject of earlier litigation between these parties. In 1966, Beckman had filed an action seeking a declaration of invalidity of one of the patents identified in the sublicense agreement. Subsequently, the complaint was amended to include a count regarding the termination provision, based upon ongoing disputes between the parties as to its meaning.

The District Court dismissed the added termination count, on the ground of lack of actual controversy between the parties. The Seventh Circuit affirmed that ruling, but reversed the District Court's denial of Beckman's right as licensee to attack the validity of the patent in issue in light of the then recent decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), eliminating the doctrine of licensee estoppel. *Beckman Instruments, Inc.* v. *Technical Development Corporation*, 433 F.2d 55 (7th Cir. 1970). TDC petitioned for certiorari on the question of license estoppel, which petition was denied by this Court. (401 U.S. 976 [1971]). Beckman did not petition on the question of "actual controversy" pertaining to the termination provision.

> In this appeal TDC argues principally that Judge Moran's interpretation of the sublicensing agreement is clearly erroneous. We have little difficulty rejecting this contention. (730 F.2d at 1078; A. 3a)

## SUMMARY OF ARGUMENT

This suit involves a question of contract interpretation, and no federal statute is directly implicated by this matter. No unsettled question of federal law is present, nor do the decisions below conflict with any precedents of this Court.

The major issue in this case was the meaning of the termination provision of the agreement as respects Beckman's obligation to make further royalty payments. That issue, the crux of the case, is not the subject of TDC's petition for certiorari, nor could it be since that question does not rise to the level of importance required under Rule 17 of this Court. Rather, TDC is attempting to manufacture an issue for review by now asserting that a secondary question in the suit presents a serious controversy requiring the attention of this Court; i.e., whether Beckman had in fact ceased to use a sublicense under the agreement after its July 1, 1976 representation disavowing such use. TDC claims the resolution of that issue by the courts below constitutes a conflict with one of this Court's precedents.

TDC misapprehends the nature and basis of the District Court and Seventh Circuit decisions. In order to interpret the contractual language regarding termination, the courts below adopted and applied the legal doctrines of equitable estoppel and contributory infringement. Those doctrines were employed as an aid to determine whether Beckman had "made use" of any sublicenses, within the

meaning of paragraph 12(b) of the agreement. In so doing, the courts below stressed factual matters which distinguished the instant matter from the precedent urged by TDC. Rather than rejecting or ignoring any decision of this Court, the relevant precedents were properly considered and applied. Accordingly, no direct challenge to this Court's decisions regarding contributory infringement or the implied license doctrine is presented. The lower courts' rulings are fully supported by the evidence and the law.

## ARGUMENT

### A. This Case Presents Questions of Importance Only to the Parties to the Sublicense Agreement.

The central issue in this case was not one of patent infringement, direct or contributory. Rather, the issue was whether the sublicense agreement was merely a device to permit a deferred payment of $5,000,000 to TDC by Beckman over time (TDC's position), or whether the agreement permitted cessation of royalty payments once Beckman stopped using the sublicenses (Beckman's position). It was this issue that Judge Marshall decided in Beckman's favor on summary judgment, and which Judge Moran also decided favorably to Beckman after a full evidentiary hearing.

As stated in Judge Moran's Memorandum and Order adopted by the Seventh Circuit, the issue was one of contractual interpretation:

> *This court's task is to interpret an agreement,* in the context of events during May-August, 1961, in accordance with the intent of the parties. (730 F.2d at 1080; A. 7a; emphasis supplied).

The secondary and remaining issue in the case, after decision upon the meaning of the termination clause of the contract, was TDC's contention that Beckman's termination of the agreement was ineffective because it "made use" of a sublicense after notification of the termination of the agreement. The secondary issue, then, was what constituted "making use" of a sublicense. Judge Moran analyzed and gave meaning to the word "use" in the termination clause of the contract by reference and analogy to concepts of patent infringement:

> The issue here is whether Beckman, in selling 9872 couplers, made use of a sublicense because it otherwise would be liable for contributory infringement or for inducing direct infringement. And Beckman cannot be so liable unless someone directly infringed. (730 F.2d at 1085; A. 17a).

In short, Judge Moran used notions of patent infringement to interpret the meaning of a word in a contractual provision. At bottom, he determined, and the Seventh Circuit concurred, that no "use" of a sublicense had occurred through Beckman's sale of certain unpatented accessories. He found not only an absence of contributory infringement, but that purchasers of such articles were led by TDC to believe that they had an "implied license" to use such articles. In the latter regard, the District Court made evident that its reasoning was a particular application of the doctrine of equitable estoppel generally applicable to contract cases:

> An implied license ultimately, however, must rest upon reasonable expectations induced by the patentee. A form of implied contract, it stems from the same legal reasoning which gives rise to the implication from the conduct of the parties of indefinite terms in an otherwise definite contract and to promissory and equitable estoppel. A person cannot induce reliance by another and then change the rules of the game. (730 F.2d at 1086; A. 18a-19a).[4]

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[4] It should be noted that the Court of Appeals for the Federal Circuit has similarly stated that the doctrine of "implied license" is but a species of the larger doctrine of equitable estoppel:

> One common thread in cases in which equitable estoppel applies is that the actor committed himself to act, and indeed acted, as a direct consequence of another's conduct. See *Dickerson v. Colgrove*, v00 U.S. 578, 580, 25 L.Ed. 618 (1879). Thus, an implied license cannot arise ou' of the unilateral expec-

(footnote continued)

Rather than raising "important and unique problems concerning the extent to which the implied license doctrine impacts patent infringement law" (Pet. at 8), the decisions below were made in the context of an interpretation of a contract, based upon well-established legal propositions, creating no confusion or uncertainty to patent owners or others. Although of importance to the parties, the issue presented simply does not merit review by this Court.[5]

**B. The Decisions Below Do Not Conflict with Precedents of This Court, and Were Correctly Decided.**

A review of the decisions of the two courts below, rejecting TDC's arguments that Beckman's termination of

(footnote continued)

> tations or even reasonable hopes of one party. One must have bee led to take action by the conduct of the other party. [*Stickle* v. *Heublein*, 716 F.2d 1550, 1559 (Fed. Cir. 1983)]

Judge Moran specifically found that TDC's conduct gave rise to such an estoppel, since equipment for which Beckman later sold accessories "was promoted as versatile and adaptable to a number of applications by the use of [such accessories]." (730 F.2d at 1085; A.17a). The Seventh Circuit, after discussing Judge Moran's legal reasoning on this issue, stated that it found "no fault in this analysis." (730 F.2d at 1079; A.5a).

[5] The Court of Appeals for the Federal Court has recently held that a contract dispute does not arise under the patent laws merely because the subject of the contract is patent rights. *Beghin-Say International Inc.* v. *Ole-Bendt Rasmussen*, 733 F.2d 1568 (Fed. Cir. 1984). So, too, in the instant matter, no unique or important question is raised with regard to patent infringement when an issue of contractual interpretation is involved, even though patents are the subject of the contract.

the sublicense agreement was ineffective, demonstrates no conflict with the applicable precedents of this Court. Thus, even assuming any "impact" upon patent infringement law by the decisions below, there is no basis for this Court's grant of the petition.

TDC relies exclusively upon a 75 year old decision, *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 325 (1909), without mention of the subsequent development of the law in this Court. That decision, concerning the question of contributory patent infringement, was discussed, explained, and placed in its appropriate historical perspective, both in *Aro Mfg. Co. v. Convertible Top Replacement Co.* (Aro I), 365 U.S. 336 (1961) and *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980). In the latter case, this Court stated:

> In *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 325, 29 S.Ct. 503, 53 L.Ed. 816 (1909), the Court upheld an injunction against contributory infringement by a manufacturer of phonograph discs specially designed for use in a patented disc-and-stylus combination. Although the disc itself was not patented, the Court noted that it was essential to the functioning of the patented combination, and that its method of interaction with the stylus was what "mark[ed] the advance upon the prior art." Id., at 330, 29 S.Ct., at 504. It also stressed that the disc was capable of use only in the patented combination, there being no other commercially available stylus with which it would operate. (448 U.S. at 190).

This Court later contrasted the *Leeds & Catlin* facts with those in *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931) and *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), in which "staple" articles, suitable for non-infringing uses, had been sold, and no contributory infringement found. Justice Blackman stated:

> Like the record disc in *Leeds & Catlin* or the stoker switch in the *Mercoid* cases, and unlike the dry ice in *Carbice* or the bituminous emulsion in *Leitch*, propanil [the non-patented component sold by defendant] is a nonstaple commodity which has no use except through practice of the patented method. (448 U.S. at 199).

In the decision of the District Court below, the *Leeds & Catlin* opinion was distinguished upon *factual* grounds. The court simply found that "the days when the purchase of a record for a talking machine was a major event are far removed from a market in which complicated equipment is promoted for multiple uses through interchangeable accessories." (730 F.2d at 1086; A. 18) Moreover, the District Court found that the unpatented accessory sold by Beckman after termination of the sublicense was capable of uses with non-infringing devices, including Beckman's newly developed 461-D pre-amplifier. (730 F.2d at 1086; A. 16a-17a) Hence, as this Court did in *Dawson Chemical Co.* v. *Rohm & Haas Co., supra,* the District Court made a factual distinction between the "non-staple" record disc in *Leeds & Catlin* and the "staple" accessory (9872 input coupler) allegedly "used" in the instant matter.

TDC not only attempts to obscure the *factual* reason for the distinguishing of *Leeds & Catlin* as controlling precedent in the decisions below, but also ignores the equitable estoppel issue which provided the basis for the decisions below. Equitable estoppel was *not* at issue in *Leeds & Catlin,* and accordingly that precedent could not be dispositive of the issue of whether Beckman made "use" of a sublicense. On this point, the District Court compellingly summarized the facts:

> The dynograph is a major piece of equipment. Purchasers paid a royalty through the purchase price

> because of the sublicense agreement. The equipment was promoted as versatile and adaptable to a number of applications by the use of 9800 series input couplers. There were no indications of any patent restrictions in the use of any 9800 series input couplers. It would surely have come as some surprise to Northwestern University in 1977 if it had been told that it thereafter was restricted in the use of its equipment to applications which used certain 9800 series input couplers but could not use it for other applications. (730 F.2d at 1085; A. 17a-18a)

No such findings relating to customer expectations induced by the promotion and representations of the patent owner are present in *Leeds & Catlin.*

In short, TDC's dispute is *not* with the rejection of this Court's precedent, but with the District Court's *factual findings* that a) the accessory sold had substantial noninfringing uses, and b) the patented equipment, with which the accessory could be operated, had been promoted to customers as "all-purpose" and adaptable to multiple applications, thereby giving rise to equitable estoppel. Based upon the record below, these factual findings are not "clearly erroneous," and indeed are unassailable. The Seventh Circuit Court of Appeals properly and correctly so affirmed.[6]

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[6] Under these circumstances, the oft-quoted statement of this Court is applicable:

> A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error. *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U.S. 271, 275 (1949).

*Accord.* Stern and Gressman, *Supreme Court Practice*, 4th Ed., 1969, Sec. 4.14, p. 172.

In an obvious attempt to command the attention of this Court, TDC dramatically asserts that there is "no legal precedent for the Seventh Circuit's decision," and that it cannot be "harmonized" with governing precedent of this Court. (Pet. at 8) That assertion, as indicated above, flies in the face of *Aro I* and *Dawson Chemical, supra.* That assertion also ignores later precedent of this Court, rendered 18 years after *Leeds & Catlin*, on the issue of "implied license":

> Any language used by the owner of the patent or any conduct on his part exhibited to another, from which that other may properly infer that the owner consents to his use of the patent . . . constitutes a license . . . . (*DeForest Radio Telephone Co.* v. *United States,* 273 U.S. 236, 241 [1927]).

The decisions of the Seventh Circuit and District Court below clearly applied that same rule to the facts in this case.[7]

## CONCLUSION

The petition raises no new legal issue of general importance in the administration of the patent laws, particularly since the suit was one of contractual interpretation. There is no conflict in decisions or rejection of this Court's precedents. The law is clear, well-established and was, to the extent applicable, correctly applied to the particular facts of this case.

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[7] Contrary to TDC's assumption that implied licenses can only arise with respect to the maintenance and repair of the purchased products, no such limitation was present or involved in *DeForest Radio Telephone Co., supra.*

It is therefore respectfully submitted that the Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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